

AUDITOR'S REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON UMDONI MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Umdoni Municipality, which comprise the statement of financial position as at 30 June 2010, and the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages ... to

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and in the manner required by the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa 2009 (Act No. 12 of 2009) (DoRA). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor-General's responsibility

3. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. Paragraph 11 *et seq.* of: GRAP 1 *Presentation of Financial Statements* requires that financial reporting by entities shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. As the budget reporting standard

is not effective for this financial year, I have determined that my audit of any disclosures made by the Umdoni Municipality in this respect will be limited to reporting on non-compliance with this disclosure requirement.

7. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

8. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umdoni Municipality as at 30 June 2010, and its financial performance and its cash flows for the year then ended in accordance with SA Standards of GRAP and in the manner required by the MFMA and DoRA.

Emphasis of matters

9. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unauthorised Expenditure

10. As disclosed in note 36 to the financial statements, unauthorised expenditure to the amount of R12, 307 million was incurred, as the total budget was exceeding.

Irregular Expenditure

11. As disclosed in note 36 to the financial statements, irregular expenditure to the amount of R218 027 was incurred, as supply chain management regulations were not adhered to.

Additional matters

12. I draw attention to the matters below. My opinion is not modified in respect of these matters:

Unaudited supplementary schedules

13. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

14. As required by the PAA and in terms of *General Notice 1570 of 2009* issued in *Government Gazette 32758 of 27 November 2009*, I include below my findings on the report on predetermined objectives, compliance with the following key laws and regulations Local Government: Municipal Finance Management Act, Municipal Regulations (Regulations – GRN/GN), Division of Revenue Act of South Africa, 2009 (Act No. 12 of 2009) (DoRA), Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA), Municipal Structures Act, 1998 (Act No. 117 of 1998), and financial management (internal control).

Predetermined objectives

15. Material findings on the report on predetermined objectives, as set out on pages ... to ..., are reported below:

Non-compliance with regulatory and reporting requirements**Local Government: Municipal Systems Act**

16. There was no community participation in the review of appropriate key performance indicators and targets as required by section 42 of the Municipal System's Act.

Local Government: Municipal Finance Management Act

17. Section 53(1)(c)(ii) of MFMA requires that the municipality's service delivery budget implementation plan is approved by the mayor within 28 days of the approval of the budget. This section was not complied with.

Usefulness of reported performance information

The following criteria were used to assess the usefulness of the planned and reported performance:

- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan, i.e. are the objectives, indicators and targets consistent between planning and reporting documents?
- Relevance: Is there a clear and logical link between the objectives, outcomes, outputs, indicators and performance targets?
- Measurability: Are objectives made measurable by means of indicators and targets? Are indicators well defined and verifiable, and are targets specific, measurable, and time bound?

The following audit findings relate to the above criteria:

Measures not well defined

18. Indicators / measures do not have clear, unambiguous definitions to allow for data to be collected consistently.

Reliability of reported performance information

The following criteria were used to assess the reliability of the planned and reported performance:

- Validity: Has the actual reported performance occurred and does it pertain to the entity i.e. can the reported performance information be traced back to the source data or documentation?
- Accuracy: Amounts, numbers and other data relating to reported actual performance has been recorded and reported appropriately.
- Completeness: All actual results and events that should have been recorded have been included in the reported performance information.

The following audit findings relate to the above criteria:

Lack of effective, efficient and transparent systems and internal controls regarding performance management

19. For the selected programme, the municipality did not have effective, efficient and transparent systems of control for eight indicators.

Compliance with laws and regulations

Local Government: Municipal Finance Management Act

Unauthorised Expenditure

20. The accounting officer did not take steps to prevent unauthorised expenditure as required by section 62(1)(d) of the MFMA.

Expenditure was incurred in contravention of or not in accordance with applicable legislation resulting in irregular expenditure

21. Irregular expenditure as defined in section 1 of the MFMA, was incurred due to non compliance with section 12 of the Municipal Supply Chain Management Regulations relating to procurement processes.

The financial statements were not prepared in accordance with applicable legislation

22. Contrary to the requirements of section 122(1)(a) of the MFMA, the municipality made material adjustments to the annual financial statement that was submitted for audit. These misstatements related to the disclosure of unauthorised expenditure and expenditure incurred in terms of section 36 of the Municipal Supply Chain Management Regulations.

No risk assessment for the financial year

23. A risk assessment was not prepared by the municipality in terms of section 62(1)(c)(i) of MFMA.

Tabled budget not accompanied by performance objectives

24. The budget of the municipality was not tabled with measurable performance objectives for revenue as required by section 17(3)(b).

INTERNAL CONTROL

25. I considered internal control relevant to my audit of the financial statements and the report on predetermined objectives as well as compliance with the MFMA, but not for the purpose of expressing an opinion on the effectiveness of internal control.
26. The matters reported below are limited to the significant deficiencies regarding the findings on the report on predetermined objectives and the findings on compliance with laws and regulations.

Leadership

27. The accounting officer has exercised oversight responsibility over reporting and compliance with laws and regulations and internal control, however the controls in the area of irregular and unauthorised expenditure has been noted to be weak and needs immediate attention.

Financial and Performance Management

28. The financial statements were not sufficiently reviewed for accuracy and compliance before submission for audit.

OTHER REPORTS

Investigations

29. Disciplinary cases were brought against four employees during the year. This resulted in two dismissals and two written warnings. Two other cases also involving employee discipline were in progress as at year end.

Pietermaritzburg

30 November 2010



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence